

Message Text

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INFO ALL EC CAPITALS
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SHAPE FOR POLAD

E. O. 11652: GDS
TAGS: AMGT, PFOR, EEC
SUBJECT: PARM - ANNUAL POLICY AND RESOURCE ASSESSMENT - PART I

REF: (A) STATE 38356, (B) STATE 38338, (C) STATE 41169,
(D) CERP 0001

PART I - POLICY ASSESSMENT (ISSUES).

THIS IS SECOND OF TWO SECTIONS OF PART I. SEPTTEL
ANALYZES US INTERESTS AND OBJECTIVES.

ISSUES IN US/EC RELATIONS
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WE HAVE GROUPED OUR DISCUSSION OF ISSUES, OPPORTUNITIES
AND ACTION RECOMMENDATIONS INTO THREE BROAD CATEGORIES: (1)
THOSE ISSUES LIKELY TO PROVE CONTENTIOUS IF NOT HANDLED EARLY
OR PROPERLY, OR IN WHICH AN OPPORTUNITY TO BREAKTHROUGH ON A
PAST PROBLEM EXISTS IF ACTED UPON PROMPTLY; (2) AREAS IN
WHICH GOOD OPPORTUNITIES EXIST TO BROADEN OR DEEPEN OUR

RELATIONSHIP OVER THE COMING YEAR OR TWO; (3) AREAS IN WHICH THE ISSUES INVOLVED OR THE WAY WE ACT COULD HAVE CONSIDERABLE INFLUENCE ON THE FUTURE INSTITUTIONAL DEVELOPMENT OF THE COMMUNITY. WITHIN EACH CATEGORY, ISSUES OR OPPORTUNITIES ARE ARRANGED IN ROUGH ORDER OF PRIORITY.

A. URGENT ISSUES/OPPORTUNITIES

1. BILATERAL TRADE

IN THE PAST YEAR, LARGELY DUE TO INTENSIVE CONSULTATION, THE UNITED STATES AND THE COMMUNITY SUCCESSFULLY DEFUSED SEVERAL TRADE PROBLEMS THAT COULD HAVE CAUSED SERIOUS TROUBLE. THE UNITED STATES WORKED OUT A PRACTICAL SOLUTION TO THE AUTO ANTI-DUMPING CASE, REJECTED PROTECTION FOR SHOES, AND RESISTED IN COURT THE US STEEL VALUE ADDED TAX CASE. THE COMMUNITY GAVE UP ON THE FATS AND OILS TAX AND TERMINATED THE NON-FAT DRY MILK MIXING REGULATIONS. THE PLATE THIS YEAR WILL BE JUST AS FULL AND EVEN MORE DANGEROUS. THE FOLLOWING MAJOR ISSUES WILL HAVE TO BE MANAGED:

SAFEGUARD ACTIONS - FOOTWEAR - THE ISSUE WILL BE A US SAFEGUARD ACTION ON SHOES, ITS EFFECT ON EC TRADE AND THE COMMUNITY REACTION. THE EC KNOWS THAT THE ITC RECOMMENDATION WOULD NOT HURT ITALY, WITH ITS DECLINING EXPORTS. HOWEVER, THE COMMISSION WANTS A SOLUTION THAT WILL AVOID STRENGTHENING THE HAND OF THE COMMUNITY PROTECTIONISTS. WERE THE UNITED STATES TO PROTECT SHOES (AND LATER TELEVISIONS), COMMUNITY STEEL, ELECTRONICS AND TEXTILE PRODUCERS AMONG OTHERS WILL INSIST THAT

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THE COMMUNITY PROTECT THEM AS THE UNITED STATES PROTECTS ITS INDUSTRIES. COMMUNITY REACTION TO A SAFEGUARD ACTION ON SHOES WOULD BECOME MUCH MORE INTENSE WERE THE US DECISION ACTUALLY TO RESTRAIN EXPORTS FROM ITALY, ALREADY BURDENED BY ECONOMIC AND POLITICAL DIFFICULTIES. IT WOULD PROVOKE CALLS FOR RETALIATION ON OVER \$300 MILLION IN US EXPORTS TO THE EC. THE COMMUNITY IS LOOKING AT THIS DECISION AS A KEY TRADE POLICY TEST FOR THE CARTER ADMINISTRATION.

RECOMMENDATION: THAT THE ADMINISTRATION PROVIDE RELIEF FOR THE US SHOE INDUSTRY WITH DOMESTIC ASSISTANCE, NOT TRADE CURBS, THEREBY SETTING A GOOD EXAMPLE FOR THE EC.

STEEL - THE COMMUNITY HAS NOT MOVED TO RETALIATE AGAINST US SPECIALTY STEEL QUOTAS DESPITE DOMESTIC PRESSURE AND THE FACT THAT THESE QUOTAS ARE BITING. HOWEVER, IT HAS HELD OFF MAINLY IN THE ANTICIPATION THAT THE UNITED STATES WILL CALL FOR AN ITC REVIEW AND MOVE TO LIGHTEN THE RESTRAINTS. IF WE FAIL TO DO SO, WE CAN EXPECT RETALIATION. THE SIMONET PLAN

(ESSENTIALLY DELIVERY TARGETS AND PRESSURE ON TRADE PARTNERS) DID NOT BRING MUCH RELIEF TO THE COMMUNITY'S HARD-PRESSED CARBON STEEL INDUSTRY. THE COMMISSION, SPURRED ON BY DAVIGNON, PLANS TO FORTIFY THE CONJUNCTURAL ELEMENTS OF THE PLAN BY INTRODUCING MINIMUM PRICES (OBLIGATORY OR REFERENCE DEPENDING ON PRODUCT) AND BY SEEKING ADDITIONAL VOLUNTARY RESTRAINT AGREEMENTS. THE JAPANESE VOLUNTARY RESTRAINT AFFECTS ONLY A SMALL PORTION OF THE COMMUNITY STEEL PROBLEM. THOUGH BOTH THE PLAN AND THE JAPANESE RESTRAINTS CAUSED STRONG POLITICAL REPERCUSSIONS IN THE UNITED STATES, THE COMMISSION IS LEERY OF A STEEL SECTOR NEGOTIATION FOR FEAR THIS WILL PRODUCE THE WORLD STEEL CARTEL OR MARKET SHARING THAT BOTH THE EC AND THE US INDUSTRIES ARE SEEKING. DESPITE THESE DANGERS, HOWEVER, THE UNITED STATES AND THE COMMUNITY NEED TO WORK TOGETHER, BEGINNING WITH BILATERAL TALKS AND PROBABLY WORKING TOWARD A MULTI-LATERAL APPROACH.

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RECOMMENDATION:

1) THAT THE ADMINISTRATION PROMPTLY ASK THE ITC TO REVIEW THE SPECIALTY STEEL QUOTAS;

2) THAT WE HAVE A FULL BILATERAL DISCUSSION OF THE WHOLE STEEL SITUATION IN THE APRIL 20 US/EC CONSULTATIONS WHERE WE SHOULD AGREE TO INITIATE A MULTILATERAL STEEL DISCUSSION, PERHAPS IN THE OECD.

WITHHOLDING OF APPRAISAL IN THE VAT CASE - THE CUSTOMS COURT HAS GIVEN NO DECISION IN THE ZENITH CASE, AND TIME PASSES. IF THE DECISION IS ADVERSE, UNLESS THE ZENITH CASE CAN BE SUCCESSFULLY APPEALED BEFORE LOWER COURTS RULE ON THE US STEEL VAT CASE, THE UNITED STATES WILL BE FACED WITH WITHHOLDING APPRAISAL ON A LARGE SEGMENT OF OUR TRADE. THE ECONOMIC EFFECTS WOULD BE HIGHLY DISRUPTIVE AND THE POLITICAL FALLOUT DISASTROUS FOR US-EC RELATIONS.

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RECOMMENDATIONS: THE ADMINISTRATION SHOULD BE PREPARED TO
SEEK LEGISLATIVE STAY ON WITHHOLDING OF APPRAISAL AS SOON
AS ANY COURT MAKES AN ADVERSE DECISION ON A SIGNIFICANT
VOLUME OF US IMPORTS.

DISC - THE GATT PANEL HAS MADE A CLEAR RULING CLASSIFYING THE
DISC AND CERTAIN FRENCH, DUTCH AND BELGIAN TAX PRACTICES AS
ILLEGAL EXPORT SUBSIDIES. THE UNITED STATES HAS A STRONG
INTEREST IN MAKING THE GATT DISPUTE SETTLEMENT PROCEDURES WORK
AND STRENGTHENING THE RULES OF THE GAME. WE HAVE A NUMBER
OF CASES PENDING IN THE GATT AGAINST OTHERS' PRACTICES, AND WE
WILL EXPECT THEM TO TREAT SERIOUSLY RULINGS AGAINST THEM.
OUR SUCCESS DEPENDS ON OUR ALSO RECOGNIZING THE VALIDITY OF DE-
CISIONS AFFECTING US. IF WE TRY TO USE ABOLITION OF THE
DISC AS A BARGAINING CHIP, WE WILL BE ESSENTIALLY NULLIFYING
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THE DECISION OF THE PANEL. ALSO, WE WOULD HAVE DIFFICULTY
IN SYNCHRONIZING OUR LEGISLATIVE TAX REFORM PROCESS WITH MTN
BARGAINING.

RECOMMENDATION: THE ADMINISTRATION SHOULD PROPOSE TO
ABOLISH DISC, MAKING CLEAR TO THE THREE EC MEMBER STATES
THAT UNLESS THEY FOLLOW SUIT ON THEIR TAX PRACTICES WE
WILL CONSIDER THAT THEY HAVE INCURRED AN MTN DEBT.

NFDM DISPOSAL PROGRAM - THE EC'S INABILITY TO GET ITS DAIRY
MARKET UNDER CONTROL WILL CONTINUE TO SPAWN US-EC TRADE PROBLEMS.
THE COMMISSION HAS INITIATED OR PROPOSED SEVERAL PROGRAMS

PROVIDING FOR THE HEAVILY SUBSIDIZED SALE OF NFDM FOR FEED USE -- IN DIRECT COMPETITION WITH IMPORTED OILSEEDS PRODUCTS. US INDUSTRY REACTION TO THESE ACTIONS HAS THUS FAR BEEN MUTED -- IN PART BECAUSE OF THE CURRENTLY TIGHT MARKET SITUATION FOR SOYBEANS, IN PART BECAUSE OF UNCERTAINTY AS TO THE EXTENT OR IMPACT OF THESE PROGRAMS.

RECOMMENDATION: THE ADMINISTRATION SHOULD MAKE KNOWN TO EC OFFICIALS OUR CONCERNS AT THE SCOPE AND DURATION OF THESE DISPOSAL PROGRAMS AND PRESS THE COMMUNITY TO ADOPT PRICE AND STRUCTURAL REFORMS THAT WILL PUT THE COST OF ELIMINATING SURPLUSES ON THE COMMUNITY, NOT OUTSIDE SUPPLIERS.

2. ENERGY AND NUCLEAR POLICY

THE EC COMMISSION AND MOST OF THE MEMBER STATES LOOK TO THE DEVELOPMENT OF NUCLEAR ENERGY AS THEIR ONLY PRACTICAL ALTERNATIVE TO INCREASING DEPENDENCE ON IMPORTED PETROLEUM. MANY EUROPEANS VIEW EMERGING US NUCLEAR POLICY WITH WIDE-SPREAD MISGIVINGS AS A POTENTIAL THREAT TO THEIR SOURCE OF SUPPLY, LONG-TERM GOALS IN THE ENRGY FIELD, AND THEIR PERCEIVED COMMERCIAL AND TECHNOLOGICAL LEAD IN REPROCESSING AND BREEDERS. AS THEY INCREASINGLY COME TO APPRECIATE THE

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SERIOUSNESS OF OUR NON-PROLIFERATION CONCERN, ONE REACTION WILL BE TO STEP UP THEIR SEARCH FOR "NUCLEAR INDEPENDENCE". ANOTHER WILL BE TO SEEK ACCOMMODATION WITH US VIEWS, SINCE OUR NON-PROLIFERATION OBJECTIVES ARE NOT AT ISSUE.

IN THE NEAR TERM, ONE OF THE MAJOR ISSUES IS POSED BY THE FACT THAT THE EURATOM TREATY REQUIRES FREE CIRCULATION OF NUCLEAR MATERIAL AND EQUIPMENT WITHIN THE COMMUNITY. THUS A US POLICY WHOSE OBJECT WERE TO PLACE CONTROLS ON OR LIMIT FREE CIRCULATION WOULD RISK BRINGING US INTO INCREASING CONFLICT WITH THE EC COMMISSION AND WITH MOST OF THE MEMBER STATES. WE HAVE IN FACT ALREADY HAD A FORETASTE OF THIS PROBLEM WHEN WE RECENTLY STIPULATED IN OUR APPROVAL FOR THE REPROCESSING OF US-ORIGIN IRRADIATED FUEL BY TWO MEMBER STATES THAT FURTHER TRANSFER IS TO BE SUBJECT TO US APPROVAL; THE EC HAS INFORMED US THAT FOR TRANSFERS TO OTHER EC MEMBER STATES THIS CONDITION IS CONTRARY TO THE US-EURATOM COOPERATION AGREEMENT (PRESUMABLY THEY WOULD ALSO ARGUE THAT IT VIOLATES PROVISIONS FOR FREE CIRCULATION UNDER THE EURATOM TREATY).

CONFLICT WOULD ARISE IF US POLICY SEEKS TO PROHIBIT FUEL REPROCESSING OR TO PREVENT DEVELOPMENT OF BREEDER REACTORS IN EUROPE.

THE EC COMMISSION IS ALSO CONCERNED THAT THE US POSITION ON INDEPENDENT IAEA SAFEGUARD INSPECTIONS, IF NOT PRAGMATICALLY TEMPERED, COULD LEAD TO THE DISSOLUTION OF THE PROVEN EURATOM SAFEGUARDS SYSTEM. ALTHOUGH NATIONALISTIC RESISTENCE TO EURATOM IS STRONG, PARTICULARLY ON THE PART OF THE NUCLEAR WEAPONS MEMBER STATES -- FRANCE AND UK -- FEW IN EUROPE WOULD WISH TO WEAKEN THE COMMUNITY FRAMEWORK FOR HANDLING POTENTIALLY INDEPENDENT GERMAN AND ITALIAN NUCLEAR PROGRAMS. THUS THE EURATOM "JOINT ENTERPRISE" CONCEPT RETAINS A MULTILATERAL CAPACITY, WITH POLITICAL APPEAL, FOR CONTRIBUTING TO INTERNATIONAL NON-PROLIFERATION OBJECTIVES.

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RECOMMENDATION:

1) WE BELIEVE THAT THE MOST EFFECTIVE WAY TO HANDLE THE POTENTIAL PROBLEMS WITH THE EC IS TO BRING THE COMMUNITY FULLY INTO THE PICTURE AS EARLY AS WE CAN ON OUR GLOBAL NON-PROLIFERATION GOALS AND ANALYSIS IN ORDER TO MINIMIZE OUR PROBLEMS AND POSSIBLY GAIN AN ALLY. WE SHOULD SEEK TO ENLIST THE COMMUNITY'S COOPERATION IN THE DEVELOPMENT AND EXECUTION OF OUR POLICIES -- THROUGH A FUEL CYCLE EVALUATION STUDY OR WHATEVER OTHER INSTRUMENTALITY MAY BE CHOSEN.

2) WE SHOULD AT THE SAME TIME PROVIDE TANGIBLE INDUCEMENTS FOR EC COOPERATION, SUCH AS GUARANTEED LONG-RUN SUPPLIES OF NUCLEAR FUELS AND COAL FOR POWER GENERATION AS WELL AS MEANINGFUL SHARED R&D THROUGH THE IEA AND BILATERALLY.

3) FINALLY, WE SHOULD EXPLORE POSSIBLE WAYS EURATOM COULD BE USED TO CONTROL HIGHLY SENSITIVE COMMUNITY ENRICHMENT AND REPROCESSING FACILITIES AND/OR TECHNOLOGIES. IT IS NOT INCONCEIVABLE THAT AGREEMENT IN THE COMMUNITY FRAMEWORK ON NUCLEAR EXPORT CONTROLS COULD CONTRIBUTE TO THE SOLUTION OF THE FRG-BRAZIL PROBLEM.

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3. MULTILATERAL TRADE NEGOTIATIONS

THE ENTIRE RANGE OF MULTILATERAL TRADE NEGOTIATIONS
ISSUES IS TOO LARGE TO TAKE UP HERE. THERE ARE, NEVERTHELESS,
SEVERAL FUNDAMENTAL RECOMMENDATIONS TO BE MADE, BEARING IN
MIND THAT AGREEMENT BETWEEN THE US AND THE EC, THE WORLD'S
TWO LARGEST TRADING ENTITIES, IS A SINE QUA NON FOR EVENTUAL
SUCCESS. ON BOTH SIDES TEMPTATION TO SCORE POINTS OFF THE
OTHER SIDE MUST BE SUBORDINATED TO LONG-TERM OBJECTIVES.

RECOMMENDATIONS:

1) WE SHOULD TAKE ADVANTAGE OF THE LONDON SUMMIT TO GET
A RENEWED COMMITMENT TO A SUBSTANTIAL RESULT.

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2) ON THE PROCEDURAL QUESTION: SINCE THE UNITED STATES
AND THE EC MUST WORK CLOSELY TOGETHER BOTH TO REACH
AGREEMENT ON SUBSTANCE AND TO MANAGE PROCEDURES, WE
SHOULD MAKE FULL USE OF EXISTING CONSULTATION MECHANISMS,
DIPLOMATIC CHANNELS HERE AND IN GENEVA, AND FREQUENT
MEETINGS BOTH HERE AND IN WASHINGTON AT THE COMMISSION/
STR AND GUNDELACH-BERGLAND LEVELS.

3) ON NEGOTIATION STRATEGY: THE MISSION BELIEVES THAT
THE UNITED STATES SHOULD CHANGE OUR CURRENT PRIORITIES.
CONTINUED ECONOMIC SLUGGISHNESS MAKES A FINAL DECISION

ON THE TARIFF FORMULA, WITH ITS CLOSELY-CONNECTED
SISTER, THE EXCEPTIONS EXERCISE, A DANGEROUS EXERCISE
JUST NOW. PREMATURE DECISIONS RISK RESULTING IN
SHALLOWER CUTS AND LARGER EXCEPTIONS LISTS OR BOTH.
WHILE IT IS IMPORTANT THAT ALL ASPECTS OF THE MTN
CONTINUE TO MOVE FORWARD IN ORDER TO MAINTAIN MOMENTUM
AND KEEP PROTECTIONISM AT BAY, WE BELIEVE IT IS TIME TO
SHIFT EMPHASIS AND TO BRING TO THE FRONT TWO ASPECTS OF
THE NEGOTIATIONS WHERE OUR INTEREST IS ESSENTIAL AND WHERE
THE UNITED STATES LEGISLATIVE TIME CONSTRAINTS (THE
SUBSIDY ISSUE MUST BE TIED UP BEFORE JANUARY 1979) ALLOW
NO DELAY. THESE TWO ISSUES ARE AGRICULTURE AND THE
CLOSELY-RELATED SUBSIDY QUESTION.

4) ON AGRICULTURE, WE SHOULD SEEK AN EARLY AGREEMENT WITH
THE COMMUNITY THAT WE WILL NEGOTIATE THE PRINCIPAL
COMMODITIES, E.G., GRAINS AND DAIRY, ON A PRODUCT-BY-
PRODUCT BASIS, IN RETURN FOR WHICH THE COMMUNITY SHOULD
AGREE THAT THE NON-VARIABLE LEVY ITEMS WOULD BE HANDLED
AS PART OF THE TARIFF FORMULA EXERCISE.

IN HANDLING THE VARIABLE LEVY ITEMS ON A PRODUCT-BY-
PRODUCT BASIS, ONE OF OUR PRINCIPAL OBJECTIVES WOULD BE
TO LIMIT, IF NOT ELIMINATE, EXPORT SUBSIDIES. THE PRIME
US SUBSIDY PROBLEMS WITH THE COMMUNITY ARE IN FACT ON
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THE VARIABLE LEVY AGRICULTURE ITEMS. THESE SUBSIDY ITEMS
CAN MORE EASILY BE HANDLED ON A PRODUCT-BY-PRODUCT
BASIS THAN BY AN ALL-INCLUSIVE SUBSIDY/COUNTERVAILING
CODE, WHICH, HOWEVER, IS NEEDED TO COMPLEMENT DETAILED
AGRICULTURAL PRODUCT RULES AND TO COVER INDUSTRIAL ITEMS.

5) THE EXCEPTIONS EXERCISE WILL HAVE TO BE TACKLED SOONER
OR LATER, PREFERABLY LATER, GIVEN THE CURRENT ECONOMIC
CLIMATE, BUT WE CAN BEGIN TO ESTABLISH THE MODALITIES
FOR HANDLING IT NOW. THE COMMISSION IS PREDISPOSED TO A
TARIFF NEGOTIATION WITH AS FEW EXCEPTIONS AS POSSIBLE.
HOWEVER, THE COMMISSION WILL BE UNDER SEVERE PRESSURE FROM
THE MEMBER STATES FOR A WIDE VARIETY OF EXCEPTIONS.
IF THE COMMISSION IS TO FEND OFF MOST OF THESE EXCEPTIONS,
THERE MUST BE AGREEMENT AMONG THE PRINCIPAL NEGOTIATING
STATES THAT THERE SHOULD BE A TIGHT QUANTITATIVE LIMIT
ON EXCEPTIONS. WITH SUCH A LIMIT RIGIDLY DEFINED, THE
COMMISSION CAN ARBITRATE THE INEVITABLE BATTLE AMONG
MEMBER STATES ON EXCEPTIONS. HOWEVER, WITH ONLY A VAGUE
VERBAL NEGOTIATING RULE THAT EXCEPTIONS ARE TO BE
MINIMAL, MEMBER STATES WILL BATTLE AGAINST THE COMMISSION
ALONE AND, BY LOGROLLING, THE COMMUNITY'S LIST WILL
BECOME EXTREMELY LARGE. ONCE A PRODUCT IS ON AN EXCEP-

TIONS LIST, IT WILL BE HARD TO DROP IT OFF.

TO SOME DEGREE, THE US WILL FACE THE SAME PRESSURES.
WE WILL ALSO NEED A TOOL FOR RESTRAINING PRESSURE FOR
EXCEPTIONS. THUS, BEFORE EITHER SIDE BEGINS TO EXPLORE
PRODUCTS FOR EXCEPTIONS, IT WOULD BE MOST HELPFUL IF
THEY COULD AGREE ON A QUANTITATIVE LIMIT ON EXCEPTIONS.
WE SHOULD ALSO DEFINE A FORMULA WHICH, IN ADDITION, WOULD
PENALIZE NATIONS REQUESTING EXCEPTIONS BY ASKING THEM TO
MAKE GREATER THAN FORMULA CUTS TO COMPENSATE FOR
EXCEPTIONS.

4. INTERNATIONAL MONETARY PROBLEMS
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WE HAVE NOTED A CONTINUED, IF USUALLY MUTED, EUROPEAN
CONCERN OVER ALLEGEDLY EXCESSIVE FLUCTUATIONS IN EXCHANGE
RATES. EUROPEANS POINT OUT THAT IN THE PAST 24 MONTHS THE
US RATE AGAINST THE MARK HAS VARIED AS MUCH AS 18 PERCENT EVEN
THOUGH THE CURRENT RATE OF EXCHANGE IS MORE OR LESS THE SAME
NOW AS IT WAS IN EARLY 1975. THESE MOVEMENTS ARE SEEN AS
LARGELY UNJUSTIFIED BY UNDERLYING FACTORS. THE EUROPEANS
CLAIM THESE SHARP FLUCTUATIONS HINDER TRADE, UNDERCUT COMMUNITY
ECONOMIC COHESION AND PLANNING, AND DAMPEN BUSINESS CONFIDENCE.
THE FRENCH, OF COURSE, HAVE BEEN THE MOST VOCAL, AND CONTINUE
TO MENTION EXCHANGE RATE STABILITY AS A PRECONDITION FOR
TOKYU-ROUND TRADE LIBERALIZATION, BUT THEIR CONCERN IS
SHARED BY MANY OTHERS, PARTICULARLY IN THE SMALLER COUNTRIES.
IN THE EC FINANCE MINISTERS COUNCIL, COMMISSION VICE PRESIDENT
ORTOLI IS MAKING A RENEWED EFFORT TO DEVELOP A COMMON
COMMUNITY APPROACH TO "EXTERNAL FINANCIAL POLICY".

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RECOMMENDATION: THE UNITED STATES SHOULD PREPARE FOR
A RENEWED EUROPEAN CALL FOR GREATER STABILITY IN
EXCHANGE RATES. THOUGH WE SHOULD NOT CHANGE OUR BASIC
APPROACH TO FLOATING, WE SHOULD AVOID GIVING THE
IMPRESSION OF DEAFNESS TO DEEPLY FELT EUROPEAN CONCERNS,
AND WE SHOULD ADOPT A MORE ACTIVE US INTERVENTION POLICY
WHEN IMF SURVEILLANCE INDICATES ITS DESIRABILITY. WE
SHOULD ALSO UPGRADE OUR CONSULTATIONS WITH THE COMMISSION
ON EXCHANGE RATE AND MONETARY SYSTEM ISSUES.

B. OPPORTUNITIES TO STRENGTHEN RELATIONSHIP

1. CONDUCTING BUSINESS WITH THE EC

IN THE PURSUIT OF OUR OBJECTIVES IT IS SOMETIMES TEMPTING
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FOR WASHINGTON TO DEAL WITH INDIVIDUAL MEMBER STATES
RATHER THAN WITH THE COMMUNITY AS A WHOLE. THIS ERROR HAS
BEEN MADE IN THE PAST ON ECONOMIC SUMMITS, SOME NUCLEAR,
NORTH-SOUTH, AND AID (ZIMBABWE) ISSUES, AS WELL AS, AMONG
OTHERS, THE EXPORT CREDIT CONSENSUS PROBLEM. THIS IS PERHAPS
UNDERSTANDABLE IN VIEW OF THE FACT THAT THE COMMUNITY IS A
UNIQUE AND IMPERFECT STRUCTURE, WHEREAS THE MEMBER STATES
REPRESENT A MORE CONVENTIONAL AND FAMILAR BRAND OF INTER-
LOCUTOR. WE WOULD LIKE TO STRESS, HOWEVER, THAT THE ECONOMIC
AND POLITICAL WEIGHT OF THE COMMUNITY PER SE IS A SUBSTANTIAL
FACTOR ON THE WORLD SCENE, AND THAT IS INSTITUTIONS CAN,
IF PROPERLY UTILIZED, BE IMPORTANT ASSETS TO US. FAILURE
TO RECOGNIZE COMMUNITY COMPETENCE OR TO PERCEIVE AN
ACTUAL OR POTENTIAL COMMUNITY ROLE MAY BLOCK OR COMPLICATE
WHAT WE ARE TRYING TO ACHIEVE -- OR MEAN VOLUNTARY ABANDONMENT
OF A POTENTIAL ALLY IN ACHIEVING OUR OBJECTIVES.

RECOMMENDATION: WHILE IT IS PARTICULARLY DIFFICULT TO LAY DOWN HARD AND FAST RULES FOR THE CONDUCT OF BUSINESS BECAUSE THE COMMUNITY IS CONSTANTLY IN EVOLUTION (E.G., COMMUNITY COMPETENCE IS WELL ESTABLISHED IN THE COMMERCIAL POLICY AREAS, RECOGNIZED ON MOST NORTH-SOUTH ISSUES, DISPUTED IN SOME ENERGY AND POLITICAL FIELDS, AND INTRIGUINGLY LATENT ON DEFENSE ISSUES), WE WOULD SUGGEST THE FOLLOWING GUIDELINES:

1) WHEN THE COMMISSION IS FORMULATING PROPOSALS ON ISSUES WHICH CONCERN US BUT HAS NOT YET PUT THEM TO THE EC COUNCIL, WE URGE THAT THE US GENERALLY CONFINE ITS REPRESENTATIONS TO THE COMMISSION. ONCE THE MATTER IS IN THE HANDS OF THE MEMBER STATES, IT IS USUALLY FAIR GAME FOR US TO GO TO CAPITALS.

2) WHEN THE SITUATION IS MORE FLUID BETWEEN THE COMMISSION AND THE MEMBER STATES, I.E., WHEN THE COMMISSION HAS NOT YET SEIZED ITS TREATY-GIVEN CONFIDENTIAL

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PREROGATIVES OF INITIATION, THE ADVOCACY OF OUR POSITION MAY REQUIRE OUR UNDERTAKING REPRESENTATIONS WITH THE MEMBER STATES' GOVERNMENT, AS WELL AS WITH EC INSTITUTIONS. THE USE OF THIS KIND OF PRESSURE SHOULD BE CAREFULLY CONTROLLED AND LIMITED TO KEY ISSUES, SINCE EXCESSIVE RECOURSE TO MEMBER STATE CAPITALS CAN DEPRECIATE THE USEFULNESS OF THE TECHNIQUE AND UNDERCUT THE COMMISSION AS WELL. AT A MINIMUM WE SHOULD NORMALLY INFORM THE COMMISSION WHEN WE GO TO CAPITALS, AND PREFERABLY BRING THEM INTO THE PROCESS AT THE SAME TIME. THE POINT IS TO KEEP THE COMMUNITY AS A WHOLE IN THE PICTURE.

3) IN EXAMINING INITIATIVES WE WISH TO LAUNCH ON A MULTILATERAL BASIS, I WOULD URGE THAT WHERE THERE IS A PLAUSIBLE LINK EVEN ON MATTERS WHERE WE HAVE NOT PREVIOUSLY HAD A DIALOGUE WITH THE COMMUNITY, WE SEEK TO ENGAGE THE EC THROUGH THE COMMISSION, PRESIDENCY, OR BOTH AS THE SPECIFIC SITUATION REQUIRES.

4) IN THOSE CASES IN WHICH ONE OR MORE MEMBER STATES ARE KNOWN TO OPPOSE PARTICIPATION BY THE COMMUNITY INSTITUTIONS IN PARTICULAR ACTIVITIES, WE RECOMMEND A POSTURE NOT UNLIKE THAT WE ADOPTED AS REGARDS COMMUNITY PARTICIPATION IN THE LONDON SUMMIT: MAKE KNOWN TO THE COMMISSION AND MEMBER STATES THAT WE WOULD WELCOME SUCH PARTICIPATION BUT THAT IT IS FOR THE EUROPEANS TO DECIDE ON THE MODALITIES. IN ADDITION WE SHOULD KEEP THE COMMISSION DIRECTLY INFORMED OF

ANY US INITIATIVES IN THESE FIELDS AND MAKE OURSELVES
AVAILABLE FOR BRIEFINGS ON US POSITIONS RATHER THAN
RELY ON MEMBER STATES TO CONVEY OUR VIEWS.

2. NORTH-SOUTH DIALOGUE

THE ISSUE IS HOW TO FOLLOW UP ON THE CIEC MINISTERIAL.
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SINCE WE WILL INEVITABLY FACE A CHORUS OF STRIDENT ADDITIONAL
LDC DEMANDS ONCE THEY HAVE DIGESTED THE RESULTS OF THE CIEC,
WE BELIEVE IT IS ESSENTIAL THAT THE UNITED STATES ELABORATE
IN CONJUNCTION WITH THE COMMUNITY AND THE JAPANESE A
LONG-RANGE DEVELOPMENT STRATEGY DESIGNED TO TAKE THE
INITIATIVE AWAY FROM THE LDCS. MOREOVER, A STRATEGY
OF GRADUALLY UNFOLDING POLICY INITIATIVES WITH CLEAR
POTENTIAL RESULTS SHOULD BE HELPFUL IN THE NEXT YEAR OR
TWO TO LESSEN CONFRONTATION WITH THE LDCS OR THEIR CON-
CENTRATION ON ECONOMICALLY FOOLISH (E.G., DEBT MORATORIUMS)
AND, FOR US, POLITICALLY DIFFICULT DEVELOPMENT RECIPES.
UNDOUBTEDLY, BASIC ELEMENTS OF SUCH A STRATEGY WOULD BE
THE RESOURCE TRANSFER PROPOSALS THE ADMINISTRATION HAS
ALREADY ADVANCED: HIGHER LEVELS OF ECONOMIC ACTIVITY IN
THE DEVELOPED WORLD, TRADE LIBERALIZATION, AND INCREASED
ODA. ANOTHER ELEMENT OF A COORDINATED DEVELOPMENT STRATEGY
SHOULD BE A JOINT REVIEW, FIRST AMONG THE WESTERN POWERS
AND, SUBSEQUENTLY, IN CONJUNCTION WITH THE LDCS, OF THE
EXISTING GENERALIZED TARIFF PREFERENCE SCHEMES. THE OECD
GROUP CHARGED WITH REVIEWING GSP SCHEMES SHOULD GET MOVING.
A SERIOUS JOINT REVIEW, AS FAR AS WE ARE AWARE, HAS NOT BEEN
MADE OF THE EXTENT OR EFFECTIVENESS OF THE CURRENT PREFERENTIAL
SCHEMES. WE BELIEVE AN OBJECTIVE STUDY WOULD POINT OUT
WAYS TO IMPROVE GSP BENEFITS. IT MIGHT ALSO DEMONSTRATE
THAT THE EC SCHEME IS FAR FROM BEING AS BENEFICIAL AS IT
IS UNDERSTOOD TO BE, AND THEREBY PRODUCE THE EC TO DO MORE.

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C O N F I D E N T I A L SECTION 5 OF 8 EC BRUSSELS 3176

RECOMMENDATION: THE UNITED STATES AND THE EC SHOULD
WORK TOGETHER TO DEVELOP JOINTLY AN OVERALL NORTH-SOUTH
STRATEGY WHICH CONCENTRATES ON MEASURES WHICH TRULY
FOSTER DEVELOPMENT AND WHICH WILL MEET SOME OF
OUR GOALS AS WELL AS ANSWER SOME OF THE LDC'S
POLITICAL DEMANDS. IN ADDITION TO THE BASIC ELEMENTS
MENTIONED ABOVE, IT SHOULD INCLUDE, INTER ALIA:

1) STANDARDS FOR ENSURING THAT AID IS WELL USED, (E.G. MN
SELF-HELP REQUIREMENTS), AND EFFECTIVELY DISPENSED,
(I.E., UNTIED).

2) A COORDINATED EFFORT TO IMPROVE THE ENVIRONMENT
FOR FOREIGN PRIVATE DIRECT INVESTMENTS IN LDC RAW
MATERIAL (AS WELL AS INDUSTRIAL) PRODUCTION.
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3) EMPHASIS ON A COMMON APPROACH TOWARD RURAL
DEVELOPMENT, ESPECIALLY FOOD PRODUCTION, AND FOOD AID
ACTIVITIES.

3. POLITICAL COOPERATION

A) HUMAN RIGHTS

THE EUROPEANS OF THE NINE ARE HISTORICALLY, PHILOSOPHICALLY
AND PRACTICALLY WITH US ON HUMAN RIGHTS. THE RECORD OF THE
COMMUNITY SPEAKING UP ON HUMAN RIGHTS ISSUES HAS BEEN
REASONABLY GOOD - FROM CSCE TO THE COMMON CONCERNS THE NINE
HAVE EXPRESSED ABOUT SOUTH AFRICA, NAMIBIA, RHODESIA, AND

URUGUAY. THE EC COUNCIL, PARLIAMENT, AND COMMISSION ARE NOW PUTTING THE FINAL TOUCHES ON A JOINT DECLARATION ON BASIC RIGHTS WITHIN THE COMMUNITY. THE ALSO PUT TOGETHER A JOINT MESSAGE TO THE UN SECRETARY GENERAL ON THE OCCASION OF THE INTERNATIONAL DAY FOR ELIMINATION OF RACIAL DISCRIMINATION WHICH STRESSES THE NINE'S OPPOSITION TO ALL FORMS OF RACIAL, RELIGIOUS AND POLITICAL DISCRIMINATION "WHEREVER THEY MAY OCCUR," AND WHICH CHARACTERIZES SUCH PRACTICES AS "LEGITIMATE MATTERS OF INTERNATIONAL CONCERN."

IN ADDITION, EC COMMISSIONER FOR DEVELOPMENT CHEYSSON RECENTLY RAISED THE POSSIBILITY OF INCLUDING A PROVISION CALLING FOR RESPECT OF HUMAN RIGHTS DURING RENEGOTIATION OF THE EC'S LOME CONVENTION.

ON THE OTHER HAND, THERE ARE SOME CAUTIONS. THE EC POLITICAL DIRECTORS RECENTLY DISCUSSED A UK PAPER WHICH CONCLUDED THAT PUBLIC CONFRONTATION WITH THE EAST ON HUMAN RIGHTS VIOLATIONS WOULD PROBABLY BE COUNTERPRODUCTIVE AND JEOPARDIZE NORMALIZED EAST/WEST RELATIONS TO THE DISADVANTAGE OF DISSIDENTS AND WEST ALIKE. THE APPROACH RECOMMENDED:

1) STATEMENTS BY EC MEMBER STATES SHOULD BE GENERAL IN CONFIDENTIAL

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NATURE AND TIED TO CSCE; 2) NO ATTEMPT SHOULD BE MADE TO ROUSE PUBLIC OPINION IN THE COMMUNIST COUNTRIES, AND 3) GOVERNMENT-TO-GOVERNMENT PRESSURE IS SELF-DEFEATING SINCE IT IS REGARDED BY THE EAST AS UNACCEPTABLE INTERFERENCE IN INTERNAL AFFAIRS; THEREFORE, REPRESENTATIONS ON PARTICULAR CASES SHOULD BE LEFT TO PRIVATE INDIVIDUALS. WHILE THIS APPROACH WAS APPARENTLY NOT FORMALLY APPROVED BY THE NINE, IT PROBABLY IS A FAITHFUL READING OF THE GENERAL TEMPERATURE.

RECOMMENDATION:

1) WE BELIEVE THAT THE SPECIFIC OBJECTIVES OF OUR HUMAN RIGHTS POLICY ARE A LEGITIMATE SUBJECT FOR CONSULTATION WITH THE EC NINE. ALTHOUGH WE INTRODUCED HUMAN RIGHTS IN OUR DIALIGUE WITH THE UK EC PRESIDENCY IN JANUARY, WE DID SO LARGELY IN THE CONTEXT OF AGENDA ISSUES AT THE UN HUMAN RIGHTS COMMISSION MEETING IN GENEVA -- AND THERE WAS RELATIVELY LITTLE PLAY-BACK FROM THE NINE. IN THE FUTURE WE RECOMMEND THAT WE UTILIZE OUR POLITICAL DIALOGUE WITH THE NINE AS A MAJOR CHANNEL FOR SETTING FORTH OUR OBJECTIVES, EXPLAINING HOW WE PLAN TO MOVE AHEAD, AND SOLICITING THE SUPPORT OF THE MEMBER STATES. WE WOULD ALSO SUGGEST ADVANCE COORDINATION WITH THE NINE ON INITIATIVES WE ARE PLANNING TO TAKE IN INTERNATIONAL ORGANIZATIONS,

SUCH AS THE UNGA OR THE UN HUMAN RIGHTS COMMISSION.
WE SHOULD PROMPTLY SEEK EC BACKING OF THE PRESIDENT'S
PROPOSAL TO MOVE THE UN HUMAN RIGHTS DIVISION BACK TO
"THE CENTRAL HEADQUARTERS."

2) OUR ADVOCACY OF HUMAN RIGHTS WITH THE NINE WILL
NEED TO TAKE INTO ACCOUNT THE RESERVATIONS AMONG
THE NINE ABOUT "CONFRONTATION." WE SUGGEST THAT ONE
WAY OF ENGAGING THE NINE IN A DIALOGUE ON THIS
IMPORTANT FACTOR WOULD BE TO SHARE WITH THEM OUR
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INFORMATION AND ANALYSES ON EASTERN EUROPEAN AND
SOVIET DISSIDENT MOVEMENTS.

B) CONVENTIONAL ARMS EXPORTS

GIVEN THE IMPORTANCE THE ADMINISTRATION ATTACHES TO
LIMITING CONVENTIONAL ARMS SALES TO DEVELOPING COUNTRIES,
IT WILL BE IMPORTANT TO GET OUR VIEWS ACROSS TO OTHER ARMS
EXPORTERS IN A VARIETY OF FORA.

WE RECOGNIZE THAT THE EC TRACK RECORD ON THIS SUBJECT
HAS BEEN RATHER LIMITED. IN THE PAST FRENCH OPPOSITION HAS
JEPT CONVENTIONAL ARMS TRANSFERS FROM BECOMING A SUBJECT FOR
EC POLITICAL COOPERATION; THE NINE'S DISARMAMENT EXPERTS
NORMALLY EXAMINE THE QUESTION ONLY IN PASSING AS THEY
ANNUALLY PREPARE FOR UN CONSIDERATION OF BROADER DISARMAMENT
ISSUES. WE COULD NOT BE SURE THAT OUR VIEWS WOULD NECESSARILY
GET A WIDE AIRING IN AN EC CONTEXT. HOWEVER, THE BASIC
ISSUE, THOUGH IT MAY NOT HAVE BEEN DISCUSSED MUCH IN THE
COMMUNITY, IS CERTAINLY NOT IRRELEVANT TO THE COMMUNITY.
WE UNDERSTAND THAT DURING DISCUSSIONS OF THE TINDEMANS REPORT
LAST FALL, ALL OF THE NINE EC FOREIGN MINISTERS, EXCEPT THE
FRENCH, WERE PREPARED TO AGREE TO A PROPOSAL TO EXCHANGE
INFORMATION OMN THE SALES OF ARMS TO THIRD COUNTRIES. THERE
IS CLEARLY INTEREST AMONG MANY OF THE MEMBER STATES IN
THIS ISSUE AND THE COGENCY OF OUR PURPOSE JUST MIGHT OPEN
UP AN EC COUNING BOARD.

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 3414

INFO ALL EC CAPITALS

USOECD PARIS

USMISSION GENEVA

MTN DEL GENEVA

USNATO BRUSSELS

AMEMBASSY ATHENS

AMEMBASSY LISBON

AMEMBASSY MADRID

SHAPE

C O N F I D E N T I A L SECTION 6 OF 8 EC BRUSSELS 3176

RECOMMENDATION:

SINCE THE NINE INCLUDE A NUMBER OF MAJOR ARMS EXPORTERS, WE SUGGEST BREAKING SOME NEW GROUND IN OUR DIALOGUE BY PUTTING FORTH A COMPREHENSIVE RATIONALE FOR OUR PROGRAM TO THE EC PRESIDENCY AT THE APPROPRIATE MOMENT. SUPPORTING STATEMENTS AND ANALYTICAL MATERIAL MIGHT ALSO BE TRANSMITTED WITH THE SUGGESTION THAT THEY BE STUDIED BY THE NINE'S DISARMAMENTS EXPERTS GROUP.

4. AID COORDINATION

THE ISSUE IS WHETHER OR NOT, AND IF SO HOW, TO IMPROVE OUR AID COORDINATION WITH THE COMMUNITY. THANKS LARGELY
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TO THE DAC AND THE WASHINGTON DEVELOPMENT COORDINATION COMMITTEE WE HAVE NOT OPERATED TOTALLY INDEPENDENTLY. WE HAVE ALSO RELIED ON OCCASIONAL PERIPHERAL, OR PARTIAL, CONSULTATIONS BETWEEN SOME EC/US OFFICIALS AND A CERTAIN AMOUNT OF PROJECT COORDINATION IN LDC CAPITALS. BUT WE CAN DO BETTER. WE SHOULD BEAR IN MIND THAT, NEXT TO THE UNITED STATES AND INTERNATIONAL FINANCIAL INSTITUTIONS, THE EUROPEAN COMMUNITY, AS SUCH AND ABOVE MEMBER STATE EFFORTS, IS THE LARGEST PROVIDER OF AID TO THE DEVELOPING WORLD -- APPROXIMATELY \$2 BILLION PER YEAR. IN THE FIELDS OF PROJECT COORDINATION,

GEOGRAPHIC DIRECTION, FOOD AID ALLOCATION, EMERGENCY AID AND INTEGRATION OF BILATERAL AND MULTILATERAL AID EFFORTS, WE SHOULD BEGIN A SYSTEMATIC AID COORDINATION EFFORT WITH THE COMMUNITY, AND THAT EFFORT SHOULD BEGIN WITH TRYING TO ESTABLISH A COMMON VIEW ON AID STRATEGY. COORDINATION ON BASIC STRATEGY WOULD ALLOW US TO MAKE SUGGESTIONS FOR EC AID EFFORTS ALONG LINES MORE COMPATIBLE WITH CURRENT US POLICIES. FOR EXAMPLE, THERE IS NO POPULATION POLICY CONTENT IN COMMUNITY AID PROGRAMS. CLOSER GENERAL COORDINATION WITH THE COMMUNITY WOULD ALLOW THE UNITED STATES TO BE MORE CONVINCING IN URGING THE COMMUNITY TO TAKE GREATER ACCOUNT OF THE POPULATION ISSUE IN ITS AID PROGRAMS. SIMILARLY, IN SUCH A CONTEXT WE MIGHT BE ABLE TO MOVE THE COMMUNITY TO SHIFT FROM ITS CURRENT CONCENTRATION ON PROJECT AID TO GREATER RELIANCE ON PROGRAM AID WHERE RECIPIENTS FURNISH EVIDENCE OF PROMISING NATIONAL DEVELOPMENT PLANS. THE EC COMMISSION HAS EXPRESSED A DESIRE TO WORK WITH US OFFICIALS IN DISCUSSING WITH VARIOUS ARAB DEVELOPMENT FUNDS THE POSSIBILITY OF JOINT OR PARALLEL FINANCING OF PROJECTS, PARTICULARLY IN AFRICA. THIS TYPE OF COORDINATION MIGHT LESSEN DANGERS OF OVERLAPPING OF PROJECT PROPOSALS AND MIGHT HELP ESTABLISH PRIORITIES FOR LARGE INFRASTRUCTURE PROJECTS IN AFRICA. THE EC HAS LAUNCHED A THREE-YEAR \$335 MILLION SERIES OF REGIONAL PROJECTS IN THE SAHEL, OTHER PARTS OF AFRICA, THE CARIBBEAN AND PACIFIC. THESE PROJECTS IN SOME CASES

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OVERLAP WITH AID PROGRAMS AND MOST OF THEM REQUIRE CO-ORDINATED FINANCING BY SEVERAL DONORS IF THEY ARE TO SUCCEED.

RECOMMENDATION:

WE RECOMMEND ANNUAL CONSULTATION AT THE GILLIGAN/CHEYSSON LEVEL FOR AN OVERALL REVIEW OF US AND EC POLICIES AND PROGRAMS, SUPPLEMENTED BY MORE FREQUENT MEETINGS AT SENIOR OFFICIAL/EXPERT LEVELS ON GENERAL AID STRATEGY AS WELL AS SUCH MATTERS AS FOOD AID CONTENT AND DESTINATION AND AREA/REGIONAL PROGRAMS. WE SHOULD ALSO ENCOURAGE CLOSE AND REGULAR EXCHANGES BETWEEN EMBASSY/AID OFFICIALS, UNDP, AND THE EC COMMISSION DELEGATES IN THE 52 AFRICAN, CARIBBEAN AND PACIFIC COUNTRIES OF THE LOME CONVENTION.

5. MACROECONOMIC POLICY

PURSUANT TO THE MANDATE IT RECEIVED FROM THE NINE HEADS OF GOVERNMENT AT ROME, THE COMMISSION WILL BE PUSHING FOR A GREATER COMMUNITY CONSENSUS ON INTRA-COMMUNITY ECONOMIC POLICY CONVERGENCE. THIS WILL BE SUPPORTED EVEN IN SOME

OF THE MEMBER STATES WHICH TRADITIONALLY HAVE BEEN THE MOST
RETICENT ON COMMUNITY COORDINATION OF ECONOMIC AND MONETARY
POLICY. THE ISSUE FOR US IS HOW THE UNITED STATES SHOULD
BE INVOLVED. SO FAR, OUR MACROECONOMIC CONSULTATION EFFORTS
HAVE BEEN MAINLY CONFINED TO THE OECD. WE NEED TO DECIDE
WHETHER THE PROSPECT OF GREATER AGREEMENT ON ECONOMIC
POLICY CONVERGENCE WITHIN A COMMUNITY FRAMEWORK MEANS THAT
THE UNITED STATES SHOULD BEGIN TO MOVE TOWARD GREATER
BILATERAL EFFORT TO INFLUENCE A PROCESS WHICH, EVEN IF IT
ONLY PARTIALLY SUCCEEDS, WILL HAVE GREAT SIGNIFICANCE FOR
US.

RECOMMENDATION:

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WITHOUT REDUCING THE EMPHASIS WE GIVE TO OVERALL
ECONOMIC POLICY COORDINATION IN THE OECD, WE BELIEVE
THE TIME HAS COME TO PREPARE THE GROUND AGAINST THE
DAY WHEN POLICY COORDINATION BECOMES MORE OF A
REALITY IN THE EC, FIRST BY INJECTING MORE MACRO-
ECONOMIC SUBSTANCE INTO OUR SEMI-ANNUAL CONSULTATIONS
WITH THE COMMISSION AND, SECOND, BY INCREASING THE
FREQUENCY OF VISITS BY US AND EC ECONOMIC POLICY
OFFICIALS TO EACH OTHER'S CAPITALS.

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USMISSION GENEVA

MTN DEL GENEVA
USNATO BRUSSELS
AMEMBASSY ATHENS
AMEMBASSY LISBON
AMEMBASSY MADRID
SHAPE

C O N F I D E N T I A L SECTION 7 OF 8 EC BRUSSELS 3176

6. EXPANDED PERSONNEL AND INFORMATION INTERCHANGES

WE BELIEVE THAT WE SHOULD SEEK ADDITIONAL WAYS TO RELATE TO THE COMMUNITY. WE HAVE CONSIDERED SUCH IDEAS AS A MORE FORMAL CONSULTATIVE MECHANISM WITH THE PERMANENT REPRESENTATIVES' COMMITTEE, BILATERAL R&D COOPERATION IN ENERGY AND OTHER SCIENTIFIC AREAS, EXPANDED INFORMATION EXCHANGES, AND A PERSONNEL INTERCHANGE PROGRAM. THERE ARE PROBLEMS BOTH TECHNICAL AND POLITICAL WITH ALL OF THESE. BUT FROM A LONG-RUN PERSPECTIVE EACH OF THEM SEEMS WORTH BEARING IN MIND FOR EVENTUAL IMPLEMENTATION, AND THE LATTER TWO SEEM TO OFFER SOME SHORT-RUN POSSIBILITIES.

THE COMMUNITY IS ESTABLISHING WHAT IS KNOWN AS EURONET WHICH IS ESSENTIALLY A TELECOMMUNICATIONS-LINKED SERIES
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OF DATA BANKS TO FACILITATE THE EXCHANGE OF BASIC INFORMATION WITHIN THE COMMUNITY. WE PLAN TO EXAMINE THIS SYSTEM IN GREATER DETAIL AND BELIEVE THAT THERE WILL BE A POTENTIAL FOR TRANSLANTIC LINKAGE INTO AMERICAN DATA BANKS VIA SATELLITE COMMUNICATIONS SYSTEMS.

WE HAVE HAD FOR SOME TIME UNDER THE EISENHOWER FELLOWSHIP PROGRAM AN INFORMAL PERSONNEL EXCHANGE WHICH HAS WORKED WELL. WE BELIEVE THERE WOULD BE MUTUAL ADVANTAGE IN AN OFFICIAL PERSONNEL EXCHANGE PROGRAM. WE WOULD ANTICIPATE POLITICAL RESISTANCE FROM SOME COMMUNITY MEMBER GOVERNMENTS AND A CAUTIOUS APPROACH FROM THE COMMISSION WHICH WOULD NEVERTHELESS PROBABLY BE PREPARED TO AGREE TO A PILOT PROGRAM. IN THE AREA OF STANDARDS, ENVIRONMENTAL REGULATIONS, SOCIAL POLICY, AND PERHAPS ECONOMIC ASSISTANCE POLICY, THERE WOULD BE MUCH TO BE GAINED BY DETAILING AMERICANS AND EUROPEANS INTO EACH OTHER'S ORGANIZATIONS. EVENTUALLY OTHER MORE POLITICALLY SENSITIVE EXCHANGES MIGHT ALSO BE ENVISAGED.

RECOMMENDATION:

1) AN EFFORT SHOULD BE MADE IN WASHINGTON TO IDENTIFY POTENTIAL AREAS FOR INFORMATION AND PERSONNEL INTER-

CHANGES.

2) USEC SHOULD BE AUTHORIZED TO EXPLORE FURTHER SUCH POSSIBILITIES AND TO DETERMINE IF A JOINT WORKING GROUP ON EITHER INFORMATION OR PERSONNEL EXCHANGES OR BOTH WOULD BE A USEFUL DEVICE FOR DEVELOPING COMMON UNDERSTANDING.

C. EC INSTITUTIONAL DEVELOPMENT

1. COMMUNIST PARTICIPATION IN GOVERNMENTS

THE QUESTION OF OUR ATTITUDE TOWARD COMMUNISTS IN WESTERN
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EUROPEAN GOVERNMENTS IS AN IMPORTANT ISSUE WHICH MAY WELL SOON BECOME THE CRUCIAL ISSUE IN US-EC RELATIONS. WED A ISRT I ANALYSIS SECTION, WE MENTIONED SO IJ#

THE ADVERSE CONSEQUENCES COMMUNIST PARTICIPATE, IN ONE OR MORE EC GOVERNMENTS MIGHT HAVE FOR TRADE AND FINANCIAL COOPERATION IN THE COMMUNITY. MITTERRAND HIMSELF HAS LENT SOME WEIGHT TO THIS PROGNOSIS WITH HIS RECENT COMMENT THAT "IF OUR PARTNERS WOULD WANT TO CONSTRAIN US TO PRACTICE A POLICY (I.E., A LIBERAL ECONOMY) CONTRARY TO OUR OBJECTIVES, IT IS NOT THE FRENCH LEFT WHICH WOULD CRACK, BUT THE COMMON MARKET."

IN ADDITION TO PROBABLE ADVERSE CONSEQUENCES ON EC INTEGRATION AND ECONOMIC STABILITY, TO SAY NOTHING OF NATO, I THINK IT IMPORTANT TO POINT OUT ALSO THAT THE PRESENT CLOSE US-EC COOPERATION ON A BROAD RANGE OF INTERNATIONAL POLITICAL ISSUES WOULD BE RENDERED MORE DIFFICULT AND PERHAPS IMPOSSIBLE IF ONE OF THE NINE WERE GOVERNED BY A COMMUNIST COALITION GOVERNMENT. WE THINK THE PRESENCE OF COMMUNISTS IN WESTERN GOVERNMENTS WILL INHIBIT POLITICAL COOPERATION IN THREE WAYS: (1) IT WILL BE HARDER FOR THE WESTERN EUROPEAN GOVERNMENT WITH COMMUNIST MEMBERS TO ADOPT COHERENT POLICIES ON KEY FOREIGN POLICY ISSUES; A) THE FEAR OF LEAKING SENSITIVE INFORMATION WILL DILUTE THE QUALITY OF EC-9 POLITICAL COOPERATION; AND 3) FEAR OF LEAKS AND COMPROMISE WOULD INCLINE US TO BE MORE CIRCUMSPECT AND RESERVED IN OUR DIALOGUE WITH THE EC ON SENSITIVE POLITICAL ISSUES.

RECOMMENDATION:

1) THE US ATTITUDE TOWARD COMMUNIST PARTICIPATION IN EUROPEAN GOVERNMENTS SHOULD BE NONCONFRONTATIONAL BUT SKEPTICAL -- PUTTING THE BURDEN OF PROOF ON THE COMMUNISTS' SIDE. WE SHOULD CAREFULLY VOICE OUR

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SKEPTICISM BY PUBLICLY SETTING FORTH OUR POSITION ON
A BROAD RANGE OF CURRENT ISSUES AND IMPLICITLY INVITING
A COMPARISON WITH COMMUNIST POSITIONS.

2) WITHOUT MAKING RELATIONS WITH THE U.S. THE CRUX OF
THE MATTER, WE SHOULD FIND OPPORTUNITES TO SUGGEST TO
EUROPEANS, INCLUDING THE SOCIALISTS, THE ADVERSE
CONSEQUENCES FOR THE COMMUNITY, FOR NATO, AND FOR THE
FORTHRIGHT DIALOGUE AND THE CLOSE COOPERATION WHICH
HAVE BEEN THE BASIS FOR OUR COMMON APPROACH TO SOLVING
GLOBAL PROBLEMS WERE THERE TO BE COMMUNIST PARTICIPATION
IN AN EC GOVERNMENT.

NOTE BY OC/T: AS RECEIVED.

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FM USMISSION EC BRUSSELS
TO SECSTATE WASHDC 3416
INFO ALL EC CAPITALS
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USMISSION GENEVA
MTN DEL GENEVA
USNATO BRUSSELS
AMEMBASSY ATHENS
AMEMBASSY LISBON
AMEMBASSY MADRID
SHAPE

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2. EC ENLARGEMENT

AS NOTED IN PART I, ENLARGEMENT INTO THE NORTHERN MEDITERRANEAN WILL INCREASINGLY PREOCCUPY EC ATTENTION OVER THE NEXT FEW YEARS, AND IF ACHIEVED, IS LIKELY TO HAVE FAR-REACHING EFFECTS BOTH ON THE MEDITERRANEAN AND ON THE INSTITUTIONAL STRUCTURE AND MODUS OPERANDI OF THE COMMUNITY. WHILE WE BELIEVE US POLICY FOR NOW SHOULD CONTINUE TO STRESS THAT WHETHER OR NOT AND HOW TO ENLARGE ARE MATTERS FOR THE EUROPEANS TO DECIDE, IT IS ALSO CLEAR THAT THE US SHOULD BE AWARE OF, AND PREPARED FOR, A VARIETY OF CONTINGENCIES THAT COULD DEVELOP AROUND THIS ISSUE IN THE FUTURE. THE MISSION IS PREPARING A STUDY OF THE FACTORS INVOLVED IN THE ENLARGEMENT PROCESS AS THEY RELATE TO US INTERESTS. WE MAY HAVE FURTHER RECOMMENDATIONS TO MAKE WHEN THAT STUDY

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IS COMPLETED.

RECOMMENDATION: IN THE MEANTIME, A THOROUGH STUDY SHOULD BE PROMPTLY UNDERTAKEN IN WASHINGTON OF THE IMPLICATIONS AND CONSEQUENCES OF EC ENLARGEMENT FOR U.S. POLITICAL, SECURITY, AND ECONOMIC OBJECTIVES.

3. COMMUNITY REPRESENTATION AT BELGRADE CONFERENCE

THE EC IS CURRENTLY CONSIDERING THE QUESTION OF HOW THE COMMUNITY SHOULD BE REPRESENTED AT THE BELGRADE CSCE CONFERENCE. WHATEVER THEIR DECISION ON MODALITIES, THEY WANT OUR SUPPORT.

THE QUESTION IS UP FOR DISCUSSION AT THE LEVEL OF THE EC-NINE POLITICAL DIRECTORS. THERE IS CLEARLY A STRONG INTEREST IN THE COMMISSION AND AMONG THE NINE IN ASSURING A FORMAL COMMUNITY PRESENCE, BUT NO CONSENSUS YET ON HOW "PRESENCE" WOULD BE TRANSLATED INTO PARTICIPATION. THE SOVIETS PROBABLY WON'T LIKE IT ONE WAY OR THE OTHER, BUT WOULD PROBABLY GO ALONG WITH A WATERED DOWN VERSION, SINCE THEY ACQUIESCED IN ALDO MORO'S SIGNATURE OF THE HELSINKI FINAL ACT IN A DUAL CAPACITY: AS THE REPRESENTATIVE OF ITALY AND AS THE PRESIDENT OF THE EC COUNCIL.

RECOMMENDATION: WHILE RECOGNIZING THAT WE SHOULD NOT BE ACTIVISTS ON HOW THE EC IS REPRESENTED WE BELIEVE THE US SHOULD GO ON RECORD THAT WE WOULD HAVE NO PROBLEMS WITH COMMUNITY REPRESENTATION AT BELGRADE. HINTON

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Review Date: 20-Oct-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3049018
Secure: OPEN
Status: NATIVE
Subject: PARM - ANNUAL POLICY AND RESOURCE ASSESSMENT - PART I
TAGS: AMGT, PFOR, ECRP, PARM, EEC
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/d9b4d4b4-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
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US Department of State
EO Systematic Review
22 May 2009
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